

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Alger County Road Commission</u>	County <u>Alger</u>
Audit Date <u>12/31/05</u>	Opinion Date <u>3/10/06</u>	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <u>Anderson, Tackman & Co, PLC</u>			
Street Address <u>102 W. Washington St., Suite 109</u>	City <u>Marquette</u>	State <u>MI</u>	ZIP <u>49855</u>
Accountant Signature <u>Michael J. Leif</u> CPA			

**Alger County Road Commission
Component Unit Financial Statements
For the Year Ended December 31, 2005**

ALGER COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Doug Miron, Chairperson

Paul Heyrman, Vice Chairperson

Gary Porter, Member

Table of Contents

Independent Auditors' Report.....	4
Management Discussion and Analysis	6
Governmental Funds Balance Sheet/Statement of Net Assets	14
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities	15
Combining Governmental Funds Balance Sheet	16
Combining Statement of Governmental Fund Revenue, Expenditures And Changes in Fund Balance	17
Notes to Financial Statements	18

Required Supplemental Information

General Operating Fund Statement of Revenues and Other Financing Sources – Budgetary Comparison Schedule	29
General Operating Fund – Statement of Expenditures Budget and Actual	30

Supplemental Financial Information

Analysis of Changes in Fund Balance	32
Analysis of Revenues and Other Financing Sources.....	33
Analysis of Expenditures and Other Financing Sources	34

Compliance Section

Report on Compliance and Other Matters and on Internal Control Over Financial Reporting Based on an Audit of Component Unit Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36
Report to Management Letter.....	38



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of County Road Commissioners
Alger County Road Commission
Munising, Michigan 49862

We have audited the accompanying financial statements of the governmental activities of the Alger County Road Commission a component unit of the County of Alger, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, of the Alger County Road Commission as of December 31, 2005, and the changes in financial position there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis, and budgetary comparison information on pages 6 through 13 and 29 through 30, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated March 10, 2006 on our consideration of the Alger County Road Commission's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering

Honorable Chairman and Members
of the Board of Commissioners
County of Alger, Michigan

the results of our audit.

Our audit was conducted for the purpose of forming opinion's on the financial statements that collectively comprise the Alger County Road Commission's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Alger County Road Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

Our discussion and analysis of Alger County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a long-term view of the Road Commission's finances. Fund financial statements tell how these services are financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to ensure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Commission as a Whole

Government-Wide Statements

The statement of net assets and the statement of activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The statement of net assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission, additional nonfinancial factors such as changes in the county's property tax base, the conditions of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution need to be considered.

Fund Financial Statements

The Road Commission currently has two funds, the general operations fund and a debt service fund. All of the Road Commission's activities are accounted for in the general operations fund, except for the bond payments which are accounted for in the debt service fund. The general operations fund and debt service fund are governmental type funds. Our analysis of the Road Commission's major fund begins on page 14. The fund financial statements begin on page 32 and provide detailed information about the major fund.

Governmental Funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 77%, or \$1,455,042, from \$1,899,992 to \$3,355,034 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorized the government to assess, levy, charge or otherwise mandate payment of resources and include a legally enforceable requirement

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The net assets increased by \$1,455,042 during 2005.

In the current fiscal year the Road Commission had a net income of \$1,455,042, this was caused by the following items. \$65,439 gain from the operating fund, reclassifying infrastructure improvement of \$1,409,499 from heavy maintenance, \$580 loss from change in compensated absences liability, \$20,051 depreciation on infrastructure, reclassifying \$291,716 of principal payments on long term debt from expenditures to long term liabilities, recorded equipment depreciation expense of \$347,018 and reclassified capital outlay expenditures to capital assets of \$56,037.

Net assets as of December 31, 2005 and 2004 follow:

	2005	2004
Current and Other Assets	\$2,108,575	\$2,035,780
Capital Assets	5,383,388	4,284,920
Total Assets	<u>7,491,963</u>	<u>6,320,700</u>
Long-Term Debt Outstanding	3,478,183	3,769,318
Other Liabilities	658,746	651,390
Total Liabilities	<u>4,136,929</u>	<u>4,420,708</u>
Net Assets		
Invested in Capital Assets		
Net of Debt	2,146,498	756,315
Restricted – Debt Service	140,962	138,817
Restricted – Operations	1,067,574	1,004,860
Total Net Assets	<u>\$3,355,034</u>	<u>\$1,899,992</u>

Changes in Net Assets

A summary of changes in net assets for the years ended December 31, 2005 and 2004 follows:

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
Program Revenue		
License and Permits	\$3,890	\$3,380
Federal Grants	984,977	374,298
State Grants	2,503,494	2,398,549
Contributions From Local Units	95,096	-
Charges for Services	1,143,233	1,310,080
Investment Earnings	35,264	16,203

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	Governmental Activities 2005	Governmental Activities 2004
Reimbursements	\$7,477	\$(598,549)
Total Revenue	4,773,431	3,503,961
Expenses		
Public Works	3,141,476	3,196,751
Interest Expense	176,913	169,493
Total Expenses	3,318,389	3,366,244
Excess Before Transfers	1,455,042	137,717
Increase in Net Assets	\$1,455,042	\$137,717

The Road Commission's Fund

The Road Commission's governmental funds are used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2005, the fund balance of the governmental funds increased \$65,439 as compared to an increase of \$544,355 in the fund balance for the year ended December 31, 2004. Total operating revenues were \$4,773,431 an increase of \$601,779 as compared to last year. Total expenditures were \$4,707,992, an increase of \$1,080,695 as compared to last year.

In June we hired an engineer/manager who did the construction engineering on several projects. His time on these projects was reimbursed through force account. Our crews did two Township projects which were reimbursed by the Townships at 50%.

A summary of changes in the Governmental Funds are as follows:

	12/31/05 Governmental Funds	12/31/04 Governmental Funds	Favorable (Unfavorable) Variance	Variance Percent
Revenues				
License & Permits	\$ 3,890	\$ 3,380	\$ 510	15%
Federal Grants	984,977	374,298	610,679	163
State Grants	2,503,494	2,398,549	104,945	4
Contributions From Local Units	95,096	-	95,096	100
Charges for Services	1,143,233	1,310,080	(166,847)	(13)
Interest and Rents	35,264	16,203	19,061	118
Other Revenue	7,477	69,142	(61,665)	(89)
Total Revenues	4,773,431	4,171,652	601,779	14

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

	12/31/05 Governmental <u>Funds</u>	12/31/05 Governmental <u>Funds</u>	Favorable (Unfavorable) <u>Variance</u>	Variance <u>Percent</u>
Expenditures				
Public Works	\$4,530,344	\$3,603,969	\$(926,375)	(26)%
Net Capital Outlay	(290,981)	(366,240)	(75,259)	(21)
Debt Service	<u>468,629</u>	<u>289,568</u>	<u>(179,061)</u>	<u>(62)</u>
Total Expenditures	<u>4,707,992</u>	<u>3,527,297</u>	<u>(1,080,695)</u>	<u>(30)</u>
Excess of Expenditures Over Revenues	<u>65,439</u>	<u>544,355</u>	<u>(478,916)</u>	<u>(88)</u>
Other Financing Sources				
Proceeds from lease	-	-	-	-
Transfers In (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Financing Sources Over Expenditures	65,439	544,355	(478,916)	(88)
Fund Balance—Beginning	<u>1,384,390</u>	<u>840,035</u>	<u>544,355</u>	<u>65</u>
Fund Balance--Ending	<u>\$1,449,829</u>	<u>\$1,384,390</u>	<u>\$ 65,439</u>	<u>5%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$2,637,400, higher than the original budget. The actual revenue recognized during 2005 was greater than the final amended budget by \$-0-.

The construction for the H-58 project was not done in 2005. The engineering was not completed due to the Leachate environmental assessment, reducing the budget by \$300,000. High priority A Funding and Hazard Elimination Funding in the amount of \$200,429 was not budgeted for because the construction engineering expenses could not be funded without an engineer on staff.

The final amended expenditure budget for 2005 was \$2,637,400, higher than the original budget. The actual expenditures recognized during 2005 were less than the final amended budget by \$-0-.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

In 2005 the H-58 construction did not happen, so the expense budget was reduced by \$300,000.

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2005, the Road Commission had invested \$5,383,388 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,098,468 or 26% as follows:

	<u>2005</u>	<u>2004</u>	<u>Total Percentage Change 2005/2004</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 49,332	\$ 49,332	0%
Land/Right-of-Way	-	-	N/A
Construction in Progress	-	-	N/A
Subtotal	<u>49,332</u>	<u>49,332</u>	<u>0</u>
Capital Assets Being Depreciated			
Delectable Assets	-	-	0
Buildings	3,856,684	3,856,684	0
Equipment	4,752,961	4,696,924	1
Yard and Storage	-	-	0
Infrastructure	<u>1,836,495</u>	<u>426,995</u>	<u>330</u>
Subtotal	<u>10,446,140</u>	<u>8,980,603</u>	<u>16</u>
Total Capital Assets	<u>10,495,472</u>	<u>9,029,935</u>	<u>16</u>
Total Accumulated Depreciation	<u>(5,112,084)</u>	<u>(4,745,016)</u>	<u>(8)</u>
Total Net Capital Assets	<u>\$5,383,388</u>	<u>\$4,284,919</u>	<u>26</u>

During fiscal year 2005, the Road Commission purchased \$56,037 worth of capital assets in the current year; of that \$43,980 was for a new lead trailer and \$12,057 of small items.

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$1,836,495 an addition of \$1,409,500. The infrastructure recorded, during 2005, will be depreciated in the following year. The infrastructure is financed through federal, state and local contributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ -
Various Resurfacing Projects and Related Land/Right-of-Way	-
Construction in Progress (Various Resurfacing Projects)	1,409,500
Land	-
Building	-
Trucks/Equipment	56,037
Yard and Storage	-
Total Additions	<u>\$1,465,537</u>

Debt

At the year end, the Road Commission had \$3,528,605 in bonds and installment purchase agreements versus \$3,748,682 last year, a decrease of 6% as shown below:

	<u>2005</u>	<u>2004</u>	<u>Variance</u>	<u>Total Percentage Change 2005/2004</u>
Bonds Payable	\$2,705,000	\$2,755,000	\$(50,000)	(2)%
Installment Purchase Agreements	<u>531,890</u>	<u>773,605</u>	<u>(241,715)</u>	<u>(31)%</u>
Total	<u>\$3,236,890</u>	<u>\$3,528,605</u>	<u>\$(291,715)</u>	<u>(8)%</u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note I to the financial statements.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 45% of its revenues from the fuel tax collected. Using Michigan Department of Transportation projections, it is estimated that the Road Commission will receive the same amount of Michigan Transportation Fund revenues in 2006. The Road Commission received approximately 2% of its revenues from township contributions during 2005, this amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. During 2006, we expect to receive at least \$3,100,000 in federal, state, and township aid for road projects, some of which was deferred from 2006. Some of these projects were released late in the year after the construction season.

The above items were considered when adopting the budget for 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) (Continued)

The Road Commission is budgeting two bridge reconstructions, one local bridge and one primary bridge. Also the Road Commission budgeted for two projects in the Townships for paving of streets.

Contacting the Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the Road Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Alger County Road Commission's administrative offices at E9264 N-28, Munising, Michigan 49862.

Alger County Road Commission
Governmental Funds Balance Sheet / Statement of Net Assets
December 31, 2005

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
<u>ASSETS</u>			
Cash	\$ 1,189,837	\$ -	\$ 1,189,837
Accounts Receivable:			
Michigan Transportation Funds	293,574	-	293,574
State Highway - Other	183,030	-	183,030
Sundry Accounts	7,008	-	7,008
Inventories			
Road Materials	283,818	-	283,818
Equipment Parts and Materials	96,777	-	96,777
Prepaid Expense	54,531	-	54,531
Capital Assets	-	5,383,388	5,383,388
TOTAL ASSETS	<u>\$ 2,108,575</u>	<u>5,383,388</u>	<u>7,491,963</u>
<u>LIABILITIES</u>			
Liabilities:			
Current			
Accounts Payable	\$ 186,207	\$ -	\$ 186,207
Accrued Liabilities	62,837	-	62,837
Advances	242,603	-	242,603
Deferred Revenue	167,099	-	167,099
Bonds Payable - Due Within One Year	-	50,000	50,000
Notes Payable - Due Within One Year	-	137,808	137,808
Accumulated Employee Benefits - Due Within One Year	-	60,338	60,338
Bonds Payable - Due After One Year	-	2,655,000	2,655,000
Notes Payable - Due After One Year	-	394,082	394,082
Accumulated Employee Benefits - Due After One Year	-	180,955	180,955
TOTAL LIABILITIES	<u>658,746</u>	<u>3,478,183</u>	<u>4,136,929</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for debt service	140,962	(140,962)	-
Unreserved and undesignated	<u>1,308,867</u>	<u>(1,308,867)</u>	<u>-</u>
Total Fund Equity	<u>1,449,829</u>	<u>(1,449,829)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,108,575</u>		
Net Assets:			
Invested in Capital Assets - Net of Related Debt		2,146,498	2,146,498
Restricted for Debt Service		140,962	140,962
Restricted for County Road		<u>1,067,574</u>	<u>1,067,574</u>
Total Net Assets		<u>\$ 1,905,205</u>	<u>\$ 3,355,034</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission

Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance / Statement of Activities
For the year ended December 31, 2005

	Modified Accrual Basis	Adjustments	Statement Of Net Assets
REVENUE			
Property Taxes	\$ -	\$ -	\$ -
Licenses and Permits	3,890	-	3,890
Federal Grants	984,977	-	984,977
State Grants	2,503,494	-	2,503,494
Contributions From Local Units	95,096	-	95,096
Charges for Services	1,143,233	-	1,143,233
Interest and Rents	35,264	-	35,264
Other Revenue	7,477	-	7,477
TOTAL REVENUE	<u>4,773,431</u>	<u>-</u>	<u>4,773,431</u>
EXPENDITURES			
Current			
Primary Road Construction	-	-	-
Primary Road Heavy Maintenance	1,044,955	(1,044,955)	-
Primary Road Maintenance	597,608	-	597,608
Local Road Construction	-	-	-
Local Road Heavy Maintenance	364,544	(364,544)	-
Local Road Maintenance	965,697	-	965,697
State Trunkline Maintenance	1,036,241	-	1,036,241
Equipment Expense - Net	310,005	-	310,005
Administrative Expense - Net	211,294	-	211,294
Compensated Absences	-	580	580
Capital Outlay - Net	(290,981)	290,981	-
Infrastructure Depreciation	-	20,051	20,051
Other Expense	-	-	-
Debt Service			
Principal	291,716	(291,716)	-
Interest	176,913	-	176,913
TOTAL EXPENDITURES	<u>4,707,992</u>	<u>(1,389,603)</u>	<u>3,318,389</u>
OTHER FINANCING SOURCES (USES)			
Proceeds From Notes/Bonds Payable	-	-	-
Transfers In/Out	-	-	-
TOTAL OTHER FINANCING SOURCES(USES)	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	65,439	1,389,603	1,455,042
Fund Balance / Net Assets - Beginning of Year	<u>1,384,390</u>	<u>515,602</u>	<u>1,899,992</u>
Fund Balance / Net Assets - End of Year	<u>\$ 1,449,829</u>	<u>\$ 1,905,205</u>	<u>\$ 3,355,034</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Combining Governmental Funds Balance Sheet
December 31, 2005

	General Fund	Debt Service Fund	Total
<u>ASSETS</u>			
Cash	\$ 1,048,875	\$ 140,962	\$ 1,189,837
Accounts Receivable:			
Michigan Transportation Funds	293,574	-	293,574
State Highway - Other	183,030	-	183,030
Sundry Accounts	7,008	-	7,008
Inventories			
Road Materials	283,818	-	283,818
Equipment Parts and Materials	96,777	-	96,777
Prepaid Expense	54,531	-	54,531
TOTAL ASSETS	<u>\$ 1,967,613</u>	<u>\$ 140,962</u>	<u>\$ 2,108,575</u>
<u>LIABILITIES</u>			
Liabilities:			
Current			
Accounts Payable	\$ 186,207	\$ -	\$ 186,207
Accrued Liabilities	62,837	-	62,837
Advances	242,603	-	242,603
Deferred Revenue	167,099	-	167,099
TOTAL LIABILITIES	<u>658,746</u>	<u>-</u>	<u>658,746</u>
FUND BALANCE/NET ASSETS			
Fund balance:			
Reserved for debt service	-	140,962	140,962
Unreserved and undesignated	1,308,867	-	1,308,867
Total Fund Equity	1,308,867	140,962	1,449,829
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 1,967,613</u>	<u>\$ 140,962</u>	<u>\$ 2,108,575</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Combining Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance
For the year ended December 31, 2005

	General Fund	Debt Service Fund	Total
REVENUE			
Licenses and Permits	\$ 3,890	\$ -	\$ 3,890
Federal Grants	984,977	-	984,977
State Grants	2,503,494	-	2,503,494
Contributions From Local Units	95,096	-	95,096
Charges for Services	1,143,233	-	1,143,233
Interest and Rents	30,969	4,295	35,264
Other Revenue	7,477	-	7,477
TOTAL REVENUE	<u>4,769,136</u>	<u>4,295</u>	<u>4,773,431</u>
EXPENDITURES			
Current			
Primary Road Heavy Maintenance	1,044,955	-	1,044,955
Primary Road Maintenance	597,608	-	597,608
Local Road Heavy Maintenance	364,544	-	364,544
Local Road Maintenance	965,697	-	965,697
State Trunkline Maintenance	1,036,241	-	1,036,241
Equipment Expense - Net	310,005	-	310,005
Administrative Expense - Net	211,294	-	211,294
Capital Outlay - Net	(290,981)	-	(290,981)
Debt Service			
Principal	241,716	50,000	291,716
Interest	32,763	144,150	176,913
TOTAL EXPENDITURES	<u>4,513,842</u>	<u>194,150</u>	<u>4,707,992</u>
OTHER FINANCING SOURCES (USES)			
Transfers In/Out	(192,000)	192,000	-
TOTAL OTHER FINANCING SOURCES(USES)	<u>(192,000)</u>	<u>192,000</u>	<u>-</u>
 Change in Net Assets	 63,294	 2,145	 65,439
 Fund Balance / Net Assets - Beginning of Year	 <u>1,245,573</u>	 <u>138,817</u>	 <u>1,384,390</u>
 Fund Balance / Net Assets - End of Year	 <u>\$ 1,308,867</u>	 <u>\$ 140,962</u>	 <u>\$ 1,449,829</u>

The Notes to the Financial Statements are an integral part of this statement.

Alger County Road Commission
Notes to Financial Statements
December 31, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Alger County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Alger County Road Commission.

(1) Reporting Entity

The Alger County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners. The Road Commission may not issue debt without the County's approval and property tax levies are subject to County Board of Commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Alger County Road Commission, a discretely presented component unit of Alger County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Debt Service Fund is used to control the activity regarding their bond payments. The Board of County Road Commissioners is responsible for the administration of the Road Commission Operating Fund and Debt Service Fund.

(2) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Alger County Road Commission. There are two funds reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for the Operating Fund (governmental fund) and Debt Service Fund. These Funds are an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Major individual governmental funds are reported as separate columns in the fund financial statements.

(3) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

(4) Assets, Liabilities, and Net Assets or Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Alger County Road Commission as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007 as permitted by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Department	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure—Roads	8 to 30 years
Infrastructure—Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund Statement of Net Assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Compensated Absences (Vacation and Sick Leave)

It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds.

NOTE B – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Procedures

Budgetary procedures are established pursuant to PA 621 of 1978, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing. The budget is amended as necessary during the year, and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

NOTE C – CASH DEPOSITS AND INVESTMENTS:

The cash and equivalents are classified by GASB Statement No. 40 in the following categories:

Petty Cash	\$ 150
Cash – Held with County Treasurer	1,189,687
Total	<u>\$1,189,837</u>

Michigan Compiled Laws, Section 129.91, authorizes the Road Commission to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

NOTE C – CASH DEPOSITS AND INVESTMENTS (Continued):

The cash of the Road Commission needs to be considered in conjunction with the overall county cash position in regards to Governmental Accounting Standards Board Statement #3 and #40. This information can be found in the December 31, 2005 combined annual financial statements for the County of Alger, Michigan.

NOTE D – DEFERRED COMPENSATION PLAN:

The Alger County Road Commission offers all its employees a deferred compensation plan created accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer (Alger County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Alger County Road Commission's financial statements.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the Alger County Road Commission for the current year was as follows:

	Beginning Balances <u>1/1/05</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balances <u>12/31/05</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$49,332	\$ -	\$ -	\$ 49,332
Land/Right-of-Way	-	-	-	-
Construction in Progress	-	-	-	-
Subtotal	<u>49,332</u>	<u>-</u>	<u>-</u>	<u>49,332</u>
Capital Assets Being Depreciated:				
Depletable Assets	-	-	-	-
Buildings	3,856,684	-	-	3,856,684
Road Equipment	4,500,234	44,304	-	4,544,538
Shop Equipment	90,266	3,075	-	93,341
Office Equipment	93,842	6,446	-	100,288
Engineers' Equipment	12,582	2,212	-	14,794
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	<u>426,995</u>	<u>1,409,500</u>	<u>-</u>	<u>1,836,495</u>
Subtotal	<u>8,980,603</u>	<u>1,465,537</u>	<u>-</u>	<u>10,446,140</u>

NOTE E – CAPITAL ASSETS (Continued):

	Beginning Balances <u>1/1/05</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balances <u>12/31/05</u>
Less Accumulated Depreciation:				
Depletable Assets	\$ -	\$ -	\$ -	\$ -
Buildings	(732,395)	(81,529)	-	(813,924)
Road Equipment	(3,888,879)	(245,303)	-	(4,134,182)
Shop Equipment	(65,377)	(6,470)	-	(71,847)
Office Equipment	(46,059)	(13,512)	-	(59,571)
Engineers' Equipment	(12,306)	(203)	-	(12,509)
Yard and Storage	-	-	-	-
Vehicles	-	-	-	-
Infrastructure—Bridges	-	-	-	-
Infrastructure—Roads	-	(20,051)	-	(20,051)
Subtotal	<u>(4,745,016)</u>	<u>(357,068)</u>	<u>-</u>	<u>(5,112,084)</u>
Net Capital Assets Being Depreciated	<u>4,235,587</u>	<u>1,108,469</u>	<u>-</u>	<u>5,334,056</u>
Total Net Capital Assets	<u>\$ 4,284,919</u>	<u>\$ 1,108,469</u>	<u>\$ -</u>	<u>\$5,383,388</u>

Depreciation expense was charged to programs of the Alger County Road Commission as follows:

Equipment Expense:	
Direct	\$245,303
Indirect	77,999
Administrative Expense	13,715
Infrastructure	20,051
Total Depreciation Expense	<u>\$ 357,068</u>

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT:Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description – The Alger County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all full-time employees of the Road Commission. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Gabriel, Roeder, Smith & Company, One Town Square, Suite 800, Southfield, Michigan, 48076.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Alger County Road Commission's competitive bargaining units and requires a contribution from the employees of 4.7% of gross wages for the County Road Commission.

Annual Pension Costs – For year ended 2005, Alger County Road Commission's annual pension cost of \$100,620 for the plan was equal to the required and actual contribution.

NOTE F – EMPLOYEE RETIREMENT AND BENEFIT (Continued):

The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal funding method. Significant actuarial assumptions used include: (1) an 8% investment rate of return; (2) projected salary increases of 4.5% per year; and (3) 4.5% per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31 follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual Pension Cost (APC)	\$47,855	\$73,359	\$93,005
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	\$ -	\$ -	\$ -
Actuarial Value of Assets	\$5,846,332	\$6,012,900	\$6,159,964
Actuarial Accrued Liability (AAL)	\$6,449,526	\$6,680,552	\$7,074,410
Unfunded AAL (UAAL)	\$603,194	\$667,652	\$914,446
Funded Ratio	91%	90%	87%
Covered Payroll	\$1,161,869	\$1,155,218	\$1,143,224
UAL as a Percentage of Covered Payroll	52%	58%	80%

NOTE G – FEDERAL GRANTS:

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the year ended December 31, 2005, the Federal aid received and expended by the Road Commission was \$984,977 for contracted projects and \$-0- negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT (they are included in MDOT's single audit). Negotiated projects are projects where the road commission administers the grant and either performs the work or contracts it out. The Road Commission would be subject to single audit requirements if they expended \$500,000 or more for negotiated projects which will be included with the County's Single Audit. This threshold has been increased to \$500,000 effective for fiscal years ending after December 31, 2005.

NOTE H – POST-EMPLOYMENT BENEFITS OTHER THAN PENSION:

The Road Commission provides post-retirement health care benefits, in accordance with labor contracts and personnel policy, to all employees who retire from the Road Commission. Full premium of medical benefits for the retired employees only, between 60 and 65 years old are paid by the Road Commission. When the retired employee attains the age of 65 years, the employer's contribution shall end under the contracts. Currently, 6 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized as the insurance premiums become due. During the year, net expenditures of \$31,036 were recognized for post-retirement health care.

NOTE I – GENERAL LONG-TERM DEBT:

The changes in long-term debt of the Road Commission may be summarized as follows:

<u>Loans Payable</u>	<u>Balances</u> <u>January 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances</u> <u>December 31, 2005</u>
Peoples State Bank:				
March 2000 loan	\$ 87,758	\$ -	\$ 87,758	\$ -
September 2000 loan	21,535	-	21,535	-
February 2000 loan	30,671	-	9,738	20,933
December 2005 loan #1	110,670	-	26,013	84,657
December 2005 loan #2	522,971	-	96,671	426,300
Michigan Transportation Fund:				
Notes payable	2,755,000	-	50,000	2,705,000
Vested Employee Benefits Payable:				
Vacation benefits	89,602	4,474	-	94,076
Sick leave benefits	<u>151,111</u>	<u>-</u>	<u>3,894</u>	<u>147,217</u>
TOTAL	<u>\$3,769,318</u>	<u>\$4,474</u>	<u>\$295,609</u>	<u>\$3,478,183</u>

Loans Payable – Equipment Purchases

The Road Commission borrowed various amounts from local banks to finance the purchase of various items of road equipment, which are pledged as security for the loans. The lenders, terms and annual principal and interest requirements are as follows:

Peoples State Bank – February 2002 Loan

Tractor with Mower Attachment

**Terms: Purchase price of \$48,800 at 4.91%
interest from February 2002 to February 2007**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$10,216	\$1,028
2007	<u>10,717</u>	<u>527</u>
	<u>\$20,933</u>	<u>\$2,082</u>

Peoples State Bank – December 2005 – Loan #1

Snogo

**Terms: Purchase price of \$110,670 at 3.94%
interest from December 2005 to December 2008**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$27,113	\$3,332
2007	28,181	2,264
2008	<u>29,363</u>	<u>1,082</u>
	<u>\$ 84,657</u>	<u>\$ 6,678</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):**Peoples State Bank – December 2005 – Loan #2
4 2005 Tandem Trucks****Terms: Purchase price of \$522,971 at 3.94%
interest from December 2005 to December 2009**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$100,480	\$16,796
2007	104,439	12,837
2008	108,553	8,723
2009	<u>112,828</u>	<u>4,448</u>
	<u>\$426,300</u>	<u>\$42,804</u>

During 2001, the Alger County Road Commission entered into Act 143, Michigan transportation Fund Revenue Notes payable for the purpose of constructing a new garage and office facility in Munising in the amount of \$2,900,000 with interest from 5% to 8%.

**Michigan Transportation Fund
Notes Payable – Series 2000**

<u>Maturity Year</u>	<u>Principal</u>	<u>Interest</u>
2006	\$55,000	\$139,150
2007	55,000	135,550
2008	60,000	130,950
2009	60,000	126,150
2010	65,000	122,125
2011	65,000	118,875
2012	70,000	115,500
2013	75,000	111,875
2014	75,000	108,125
2015	80,000	104,250
2016	85,000	100,125
2017	90,000	95,750
2018	95,000	91,125
2019	100,000	86,250
2020	105,000	81,125
2021	110,000	75,750
2022	115,000	71,125
2023	120,000	64,250
2024	125,000	58,125
2025	135,000	51,625
2026	140,000	44,750
2027	150,000	37,500
2028	155,000	29,875
2029	165,000	21,875
2030	175,000	13,375
2031	<u>180,000</u>	<u>4,500</u>
	<u>\$2,705,000</u>	<u>\$2,139,675</u>

NOTE I – GENERAL LONG-TERM DEBT (Continued):

Vested Employee Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. Benefits earned by each employee in the current calendar year are to be paid to the employee in the subsequent calendar year.

Sick Leave Benefit Policies

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day, or 8 hours, for each completed month of employment. Sick leave may be accumulated with a 960 hour maximum accumulation.

Upon retirement, death or discontinuance of employment for any reason, except for dismissal for disciplinary reasons, the employee shall be paid for 480 hours accumulated sick leave at the employee's prevailing rate of pay at the time of the termination of employment.

NOTE J – CONTINGENCIES

The Road Commission has determined that, as a potentially responsible party, it is likely that it has incurred a liability for environmental remediation costs resulting from ground contamination at their old facility. Although, no claim against the Road Commission has yet been asserted, it is expected that such a claim will be brought against the Road Commission in the future.

Required Supplemental Information

Alger County Road Commission
General Operating Fund
Statement of Revenues and Other Financing Sources
Budgetary Comparison Schedule
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Permits	\$ 3,000	\$ 3,890	\$ 3,890	\$ -
Federal Aid				
Surface Transportation Program	700,000	624,505	624,505	-
Economic Development "D" Funds	200,000	160,043	160,043	-
High Priority Funds	2,850,000	18,113	18,113	-
Other	-	182,316	182,316	-
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,297,683	1,287,333	1,287,333	-
Local Road	583,847	566,118	566,118	-
Snow Removal	280,818	297,265	297,265	-
Economic Development Funds				
Target Industries (A)	176,000	4,528	4,528	-
Rural Primary (D)	200,000	188,285	188,285	-
Forest Road "E"	172,188	149,965	149,965	-
Contributions From Local Units				
Townships	-	95,096	95,096	-
Charges for Services				
State Trunkline Maintenance	920,000	1,139,517	1,139,517	-
Salvage Sales	1,000	3,716	3,716	-
Interest and Rents				
Interest	12,000	30,969	30,969	-
Other Revenue				
Reimbursements	-	7,477	7,477	-
Total Operating Revenue	<u>7,406,536</u>	<u>4,769,136</u>	<u>4,769,136</u>	<u>-</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>7,406,536</u>	<u>4,769,136</u>	<u>\$ 4,769,136</u>	<u>\$ -</u>
Fund Balance - January 1, 2005	<u>1,245,573</u>	<u>1,245,573</u>		
Total Budget	<u>\$ 8,652,109</u>	<u>\$ 6,014,709</u>		

Alger County Road Commission
General Operating Fund
Statement of Expenditures - Budget and Actual
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Roads:				
Heavy Maintenance	\$ 4,459,500	\$ 1,042,534	\$ 1,042,534	\$ -
Maintenance	704,500	597,608	597,608	-
Local Roads:				
Heavy Maintenance	242,500	363,979	363,979	-
Maintenance	939,500	965,697	965,697	-
Primary Road Structures:				
Heavy Maintenance	-	2,421	2,421	-
Local Road Structures:				
Heavy Maintenance	-	565	565	-
Other:				
Trunkline Maintenance	1,025,000	1,036,241	1,036,241	-
Equipment Expense - Net	53,500	310,005	310,005	-
Direct			768,643	
Indirect			489,266	
Operating			272,224	
Less: Equipment Rentals			(1,840,138)	
Administrative Expense - Net	186,500	211,294	211,294	-
Administrative Expense			312,285	
Less: Overhead - State Trunkline			(100,991)	
Capital Outlay - Net	(430,000)	(290,981)	(290,981)	-
Capital Outlay			56,037	
Less: Depreciation Credits			(347,018)	
Debt Service:				
Principle	291,765	241,716	241,716	-
Interest	176,744	32,763	32,763	-
Total Expenditures	<u>7,649,509</u>	<u>4,513,842</u>	<u>4,513,844</u>	<u>-</u>
Other Financing Uses:				
Transfers to Debt Service	-	192,000	192,000	-
Total Other Financing Uses	-	192,000	192,000	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>7,649,509</u>	<u>4,705,842</u>	<u>\$ 4,705,844</u>	<u>\$ -</u>
Fund Balance - December 31, 2005	<u>1,002,600</u>	<u>1,308,867</u>		
Total Budget	<u>\$ 8,652,109</u>	<u>\$ 6,014,709</u>		

Supplemental Financial Information

Alger County Road Commission
 Analysis of Changes in Fund Balance
 For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Total Operating Revenues	<u>\$ 2,336,903</u>	<u>\$ 1,246,664</u>	<u>\$ 1,185,569</u>	<u>\$ 4,769,136</u>
Total Expenditures	<u>1,538,130</u>	<u>1,556,913</u>	<u>1,418,799</u>	<u>4,513,842</u>
Excess of Revenues Over(Under) Expenditures	<u>798,773</u>	<u>(310,249)</u>	<u>(233,230)</u>	<u>255,294</u>
Other Financing Sources (Uses)				
Transfers From (To) Other Funds	(192,000)	-	-	(192,000)
Optional Transfers In (Out)	<u>(310,249)</u>	<u>310,249</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(502,249)</u>	<u>310,249</u>	<u>-</u>	<u>(192,000)</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>296,524</u>	<u>-</u>	<u>(233,230)</u>	<u>63,294</u>
Fund Balances - Beginning of Year	<u>777,718</u>	<u>-</u>	<u>467,855</u>	<u>1,245,573</u>
Fund Balances - End of Year	<u>\$ 1,074,242</u>	<u>\$ -</u>	<u>\$ 234,625</u>	<u>\$ 1,308,867</u>

Alger County Road Commission
Analysis of Revenues and Other Financing Sources
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Licenses and Permits	\$ -	\$ -	\$ 3,890	\$ 3,890
Federal Aid				
Surface Transportation Program	624,505	-	-	624,505
Economic Development "D" Funds	160,043	-	-	160,043
High Priority Funds	18,113	-	-	18,113
Other	-	182,316	-	182,316
State Aid				
Michigan Transportation Fund				
Engineering	5,000	5,000	-	10,000
Primary Road	1,287,333	-	-	1,287,333
Local Road	-	566,118	-	566,118
Snow Removal	-	297,265	-	297,265
Economic Development Funds				
Target Industries "A"	4,528	-	-	4,528
Rural Primary "D"	188,285	-	-	188,285
Forest Road "E"	49,096	100,869	-	149,965
Contributions From Local Units				
Townships	-	95,096	-	95,096
Charges for Services				
State Trunkline Maintenance	-	-	1,139,517	1,139,517
Salvage Sales	-	-	3,716	3,716
Interest	-	-	30,969	30,969
Other Revenue				
Reimbursements	-	-	7,477	7,477
Total Operating Revenue	<u>2,336,903</u>	<u>1,246,664</u>	<u>1,185,569</u>	<u>4,769,136</u>
Other Financing Sources				
Total Revenue and Other Financing Sources	<u>\$ 2,336,903</u>	<u>\$ 1,246,664</u>	<u>\$ 1,185,569</u>	<u>\$ 4,769,136</u>

Alger County Road Commission
Analysis of Expenditures and Other Financing Uses
For the Year Ended December 31, 2005

	Primary Road Fund	Local Road Fund	County Road Fund	Total
Primary Roads:				
Heavy Maintenance	\$ 1,042,534	\$ -	\$ -	\$ 1,042,534
Maintenance	597,608	-	-	597,608
Local Roads:				
Heavy Maintenance	-	363,979	-	363,979
Maintenance	-	965,697	-	965,697
Primary Road Structures:				
Heavy Maintenance	2,421	-	-	2,421
Local Road Structures:				
Heavy Maintenance	-	565	-	565
Other:				
State Trunkline Maintenance	-	-	1,036,241	1,036,241
Equipment Expense - Net	63,489	132,124	114,392	310,005
Administrative Expense - Net	116,746	94,548	-	211,294
Capital Outlay - Net	(284,668)	-	(6,313)	(290,981)
Debt Service:				
Principle	-	-	241,716	241,716
Interest	-	-	32,763	32,763
Total Expenditures	<u>1,538,130</u>	<u>1,556,913</u>	<u>1,418,799</u>	<u>4,513,842</u>
Other Financing Uses:				
Transfers to Debt Service	<u>192,000</u>	-	-	<u>192,000</u>
Total Other Financing Uses	<u>192,000</u>	-	-	<u>192,000</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>\$ 1,730,130</u>	<u>\$ 1,556,913</u>	<u>\$ 1,418,799</u>	<u>\$ 4,705,842</u>

Compliance Section



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of County Road Commissioners
Alger County Road Commission
Munising, MI 4862

We have audited the financial statements of the Alger County Road Commission; a component unit of the County of Alger, Michigan as of and for the year ended December 31, 2005, and has issued our report thereon dated March 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alger County Road Commission's component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Alger County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in our judgment, could adversely affect the Alger County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in a separate letter to management dated March 10, 2006.

Board of County Road Commissioners
Alger County Road Commission
Munising, MI 49862

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, the audit committee, the Board, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

March 10, 2006



Alger County Road Commission
Report to Management Letter
For the Year Ended December 31, 2005

To the Honorable Chairman and Members of
The Board of County Road Commissioners
Alger County Road Commission
Munising, MI 49862

In planning and performing our audit of the financial statements of the Alger County Road Commission for the year ended December 31, 2005, we considered its internal accounting control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions described below is believed to be a material weakness.

Reportable Conditions

Inventory

We found that the quantities in the perpetual inventory records for 16 of the 40 items tested were overstated. This resulted in a sample variance of 40%. We recommend that a physical inventory be taken on the total inventory annually. Also, we recommend that the Road Commission monitor the inventory on a regular basis.

To the Honorable Chairman and Members of
The Board of County Road Commissioners
Alger County Road Commission

This report is intended solely for the information and use of the organization's management, others within the organization's administration and Federal or State regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Commission's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Jackman & Company, PLLC
Certified Public Accountants

March 10, 2006